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SUBJECT: MINISTER OF FINANCE MEETS WITH NEPAD BUSINESS GROUP

REF: MASERU 93

¶1. SUMMARY: Lesotho's Minister of Finance and Development Planning Timothy Thahane met with private business players in Lesotho at a dinner organized by the Lesotho NEPAD Business Group on March 16 to share ideas on the ways in which the business community can partner with government in implementing the 2006/07 budget, and to explore modalities through which the business community can contribute to the budget process ahead of its tabling in parliament. A spokesperson for the group lauded the interventions that the government has embarked on to assist the textile sector remain competitive in international markets, and called on government to implement policies that would encourage partnerships between outside investors and the local business community. The government was encouraged to urgently enact legal reforms to enhance private sector growth. The minister was receptive to the group's comments but also urged them to become more effective partners with the GOL in boosting the country's economy. END SUMMARY.

¶2. The dinner was a successful event, attracting private sector participants in the banking, insurance, industry, trading and transport industries. The Minister attended the event with his Principal Secretary Moeketsi Majoro, the newly Appointed Director General of the Lesotho Revenue Authority, Charles Jenkins, and the Chief Executive Officers of his newly re-structured ministry. MCC and Embassy staff also attended.

¶3. The NEPAD Business Group is a registered organization that consists of individuals, organizations and companies that subscribe to the principles of The New Partnership for Africa's Development, NEPAD, and work together with government to accomplish NEPAD's goals and objectives. The group explores business opportunities for its members in the NEPAD program, and works with government to achieve national priorities under the partnership. Country-specific sectors which have been identified by the group are: Agri-business; Infrastructure development; Investor Promotion; Professional Services; Tourism; Financial Services; and Trade.

THE GROUP'S VIEWS AND QUESTIONS FROM PARTICIPANTS

¶4. Chairman of the Group, Mrs. May Moteane set the stage for the minister's presentation and subsequent discussion by calling on the minister to confer more widely with stakeholders including the private sector before government embarked on the budget process. Anchoring her remarks on the theme of the Minister's budget, "Results do Matter" (ref) , she identifying the HIV/AIDS pandemic as a national challenge to productivity and economic growth, and said collaboration between government and the private business as the only way in which the disease can be brought under control.

¶5. She went on to criticize the exclusion of Lesotho from debt

forgiveness, asking if defaulting on payments might put Lesotho in a better position for future programs of forgiveness. Note. Lesotho, which has traditionally borrowed on concessionary terms from both the IMF and the World Bank, was not included in the debt forgiveness program for HIPC countries. Both the Prime Minister and the Minister of Finance have expressed dismay at the lending institutions' "perverse incentives that punish those who manage their economic affairs prudently and pay their debts on time". (2006/7 Budget Speech), although the Governor of the Central Bank has remarked that Lesotho's non-HIPC status shows it manages its fiscal affairs well and makes the country potentially more attractive to investment. End Note.

16. Mrs. Moteane congratulated the government on the interventions it had undertaken to retain and strengthen the textile industry, crucial as it is to job creation and foreign exchange earnings. She called on government to put in place mechanisms that would ensure that the gains which had been extended through zero-rating in the manufacturing sector were ploughed back into the economy. Note. The GOL has this year instituted a zero per cent company tax rate on income generated from exporting manufactured goods outside the Southern Africa Customs Union, SACU (South Africa, Botswana, Namibia, Swaziland and Lesotho). The move specifically benefits the textile sector, which exports garments to the United States under the African Growth and Opportunity Act, AGOA. End Note. She called on the government to entrench the textile industry by using its influence to establish linkages between outside investors in the textile industry to effect transfer of skills to local business community.

17. Moteane touched on other topics. Regarding financial crime, she suggested that the Ministry of Finance establish a focal point where the public could volunteer information on corrupt practices they have observed. Antiquated licensing laws should be revisited urgently because they serve as a barrier for

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private sector development, for example requiring a person who can operate a business from home to nevertheless have a business address.

18. Questions from other attendees centered around government's inability to regulate the private sector, for example informal money lenders who charge exorbitant interest rates; a taxi industry that did not respect traffic rules, poor waste management; and the mushrooming of businesses in residential areas.

THE MINISTER RESPONDS

19. The Minister was receptive to the participants' comments but also suggested how the private sector could be more effective partners with the government in spurring economic development.

-- Agreeing that he could meet with stakeholder groups at least twice a year to discuss the next year's budget priorities, Minister Thahane urged the private sector to form interest groups that could make well-researched presentations to the Ministry of Finance ahead of the budget process. He, however, pointed out that the budget process is a collaborative one, and that more specific room for private sector activity could be better elaborated at ministry level.

-- The banking sector should devise service products that could steer the public away from loan sharks. The Governor of the Central Bank had been ordered to work together with informal money lenders and investment vehicles to ensure that they complied with the law. Enforcement of regulations, he admitted, left a lot to be desired.

-- Observing that the South African border towns around Lesotho

were thriving as a result of Basotho customers, the GOL was considering incentive schemes that would attract popular South African chain stores to open branches in Lesotho.

-- Government service provision to the private sector was slow, not recognizing the importance of time to a businessperson. Public servants need to be re-oriented to adopt a more facilitative corporate culture to their service delivery. The local private sector could assist in this.

-- During the Prime Minister's trip to China in December last year, GOL officials had discussed partnerships with Chinese investors that would facilitate the transfer of skills to Basotho. They had also requested lines of credit that would enable Lesotho investors to import machinery, and encouraged Chinese interest in the telecom, agriculture and livestock sectors. He asked private sector players to let his ministry know their particular interests so that he could introduce business people to relevant investors when they visit the country.

110. COMMENT:

Minister Thahane, a former Lesotho Ambassador to the United States, and World Bank Vice President, was appointed to this position because of his long experience in development issues. His technocratic approach and support for transparent and consultative processes, of which this event is but one example, is appropriate to finance and economic issues, especially when trying to energize Lesotho's private sector. Having also worked as Deputy Governor of the Reserve Bank of South Africa, Thahane has contacts with South African investors who could assist in Lesotho's development. The group he met with included players from varied political backgrounds and retired civil servants now turned businesspeople. Thahane's willingness to lend an ear to dialogue with private business may build support for him as he strives to reach the objectives of improved government effectiveness and economic growth highlighted in his budget speech. END COMMENT.

PERRY